

City Manager's Budget Message FY 2014 Budget

FY 2014 Adopted Budget Highlights

- Expenditures for all funds total \$175,327,484, an increase of 8.3% over FY 2013
- General Fund revenues and expenditures of \$125,599,399, an increase of 4.1% over FY 2013
- Capital Fund expenditures for General Fund supported projects of \$4,927,562 representing 3.9% of General Fund expenditures
- Real estate tax rate of \$1.06 per \$100 of assessed value, an increase of 5.0¢ from the FY 2013 Adopted Rate of \$1.01; includes 2.0¢ (1.0¢ increase) dedicated to the Stormwater Fund; average residential tax bill to increase 7.1%
- One cent on the real property tax rate is equivalent to \$545,000
- Real estate residential assessments increase an average of 2.0% for CY 2013; Commercial assessments increase an average of 0.3% for CY 2013 (for the purposes of equalization both exclude new construction totaling \$42.2 million)
- Assessed value of all real property equal to \$5,334,300,000, an increase of \$111,800,000 or 2.1% (includes new construction of \$42.2 million)
- Provides a 3.5% merit raise for eligible employees at \$300,000
- Does not provide market adjustment (COLA) for City employees
- Increases the Senior Tax and Rent Relief income limit to \$72,000, and raises the disability exemption limit to \$10,000
- Wastewater service rate increase of 10.0% to support a significant number of capital projects. Water rate remains unchanged due to Council's decision to transition the City run water system to Fairfax Water
- Use of \$2,441,488 Undesignated Fund Balance from FY 2013 estimated surplus, generated largely by the increase in the real estate tax rate
- Repayment of \$500,000 to the Undesignated Fund Balance. The remaining \$500,000 of the \$1,000,000 originally borrowed in FY 2013 is scheduled to be repaid in FY2015
- Resulting Fund Balance equal to 9.2% (\$11.5m) of General Fund expenditures, \$1.1 million below the City policy of approximately 10.0%

Guide to the Budget Document

OVERVIEW

The City's budget serves as a financial and policy plan that guides decisions made during each fiscal year. The budget is the single most important document we have for establishing control over the direction of change and determining the future of the City. It lays the groundwork for what we hope will be our community's continued future prosperity. Within the pages of the document, the reader will find:

- A fiscal plan
- Revenue and expenditure summaries
- Policy statement
- Goals and objectives
- An annual operating program
- A long range planning guide
- A management tool to ensure financial control
- Performance measures to ensure accountability and evaluate performance

Not all narratives will contain each of these components, but rather only those that are applicable.

BUDGET PREPARATION PROCESS

The development of the City's Operating Budget involves three phases: formulating budget requests, City Manager executive review and proposal, and City Council review and adoption. Each of the three phases is summarized as follows:

Formulating Budget Requests: September – December

- The formative stage of every budget begins in the Fall.
- Work with the City's Budget Committee throughout the entire budget process
- City Council sets guidelines for the budget in November, which provides the framework for developing the new budget. In addition, the City Manager briefs the City Council on the financial summary of the previous fiscal year, and a projection of the current and upcoming fiscal years.
- City agencies assess their budgetary needs and submit requests to the Budget Committee. Requests are typically due in the middle of December.
- Revenue estimates are derived from a review of current and projected economic indicators, current and proposed Federal and State legislation, knowledge of future events in the City and a review of historic trends.

City Manager Executive Review and Proposal: December – February

- Requests from departments are reviewed and evaluated for priority.
- Meetings are held between the departments and Budget Committee to discuss budget requests. Based on estimated revenues, funding is requested by the City Manager for the programs and services required to maintain an essential level of service or to provide for enhancements to programs identified as priorities by City Council.
- City Manager proposes the budget to City Council on the last Tuesday of February
- By law, local government budgets must be balanced; i.e., expenditures may not exceed revenues.

City Council Review and Adoption: March – May

- City departments provide department budget presentations.
- City Council advertises the proposed real estate tax rate (mid to late March)
- Council reviews the proposed budget and a minimum of two public hearings are held to provide the public with an opportunity to comment to ensure the budget is responsive to citizen needs.
- After careful deliberation, the proposed budget, as modified for additions and deletions, is enacted by City Council as the adopted budget. In addition, City Council adopts the real estate tax rate, all other rates and levies, and the budget appropriation resolution.
- The budget can only be amended by the City Council after proper notice and a public hearing.
- The Adopted Operating Budget takes effect on July 1, the beginning of the fiscal year.

The Capital Improvement Program (CIP) follows a similar process whereby departments submit estimates, which are evaluated for priority and funding. The initial proposed CIP is issued in November and forwarded to the Planning Commission for public hearing and evaluation. The Planning Commission holds a public hearing on the CIP and issues a memorandum to the City Council with recommendations. The City Council holds at least one public hearing on the CIP and defers action until adoption of the operating and capital budgets in May. The City Manager refines the initial proposed CIP based on an evaluation of operating funding requests and available resources. A capital budget (the first year of the adopted CIP) is included in the operating budget—together they become the adopted budget. The CIP is a separate budget document that contains all detailed project and budgetary information for the full five year period.

BUDGET REVIEW SCHEDULE

The following dates were scheduled for City Council review and approval of the budget, but are subject to change per City Council:

Date	Action Item
February 26, 2013	City Council Meeting – City Manager Presentation of Proposed Budget
March 12, 2013	Work Session – Mark-up
March 19, 2013	Work Session – Staff Presentations
March 26, 2013	City Council Meeting – <i>Consider Real Estate Tax Rate to be Advertised*</i>
April 9, 2013	City Council Meeting – Public Hearing on Budget & Work Session – Mark-up
April 23, 2013	City Council Meeting – Public Hearing on Budget & Work Session – Mark-up
May 1, 2013	City Council Meeting – Public Hearing on Real Estate Tax Rate & FY 2014 Budget Adoption (Note: WEDNESDAY MEETING)

* Required 30 days advance notice prior to public hearing on real estate tax rate if assessments are to increase greater than 1%.

ORGANIZATION OF THE BUDGET

The City's financial operations are budgeted and accounted for in a number of funds. Fiduciary funds (i.e. City retirement funds) are not included. A fund is a separate accounting unit. All of the following funds are adopted (through appropriation resolutions) and included in the budget book as part of the City's annual budget review:

General Fund — This fund is used to account for all general operating expenditures and revenues; this is the City's largest fund. Revenues in the general fund are primarily from property taxes, sales tax, the business license tax and State aid.

Capital Fund — Each year, the City adopts a five-year Capital Improvement Program (CIP) that serves as a blueprint for the long-term physical improvements the City wishes to make. The Capital Fund is funded through transfers from the General, Stormwater, Commercial Transportation Tax, Cable, Downtown, Water and Wastewater funds, Federal and State aid,

bond issues, and private donations. The current year CIP is included as part of the annual budget.

Stormwater Fund — This fund was established to carry out major stormwater projects. For FY 2014, one cent on the real estate tax rate is dedicated for project funding. This is a separate Capital Fund.

Cable Grant Fund — This fund receives its revenue from cable television fees. The revenue can only be used for cable television equipment. This is a separate Capital Fund.

Old Town Service District Fund — This fund was established to fund services and commercial projects in the Old Town District. The City levies an additional 6 cents per \$100 of assessed value on all properties in this district. Old Town Service District special assessment taxes are transferred into this fund in accordance with City Council Ordinance.

Utility Funds — Wastewater and Water services are accounted for in the Utility Funds. The Wastewater Fund and Water Fund are enterprise funds. Enterprise funds are those funds in which the cost of providing goods or services is financed primarily through user charges.

Transit Fund — The Transit Fund is used to account for operations of the City's CUE bus system. Although set up as an enterprise fund, a transfer of money from the General Fund into the Transit Fund covers a portion of the expenses of this fund.

Commercial Real Estate Transportation Fund — This fund levies an additional 5.5 cents per \$100 of assessed value on all commercial and industrial properties. The revenue collected is to be used exclusively for new transportation projects.

BUDGETARY BASIS

The budgets of the General and Capital funds (including Stormwater, Old Town Service District, Cable Grant, and Commercial Transportation Tax) utilize the modified accrual basis of accounting under which revenues are recorded when measurable and available to finance operations during the year. Expenditures, except for interest, are recorded when the liability is incurred. Interest is recorded when due. Budgets of the Utility funds and Transit fund utilize the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when the liability is incurred. The budget basis of accounting does not materially differ from that used for financial reporting (all funds), with the notable

exceptions of depreciation and amortization, and debt service reporting in the enterprise funds, which are more appropriately illustrated in the City's Comprehensive Annual Financial Report (CAFR).

Water and Wastewater

Fiscal and Operating Policies

ESTABLISHMENT OF RATES

1. Water and Wastewater rates and fees shall be established by City Council in a transparent manner consistent with all similar City activities. To that end, customers and residents (the rate payers) shall be given notice of all meetings of the City Council when such discussions and rate settings occur. In the establishment of annual Water and Wastewater rates, the City shall adequately disclose future growth plans and their expected impact on future rates.
2. The City shall annually prepare and include in the adopted budget a three-year future estimated rate schedule.
3. All ratepayers shall be charged uniform rates within their rate class. The determination of rates for the enterprise funds shall conform to standard municipal utility practices.
4. Rates for the enterprise funds, including the timing of rate adjustments, shall be designed to recover fixed and variable costs in such a manner as to ensure cost recovery and rate stability.
5. Rates of the enterprise funds shall be established to 1) ensure efficient and effective operation of the utilities, 2) fully recover actual operating and maintenance expenses incurred during the fiscal year, 3) repay annual debt payments for capital expenses of the enterprise fund 4) ensure surplus revenues are reserved to facilitate rate stability for ratepayers

APPLICATION OF THE MANAGEMENT FEE

1. The Water and Wastewater utilities shall reimburse services received from other City departments, including but not limited to, personnel, administrative expenses, equipment and facilities. These services shall be prorated to reflect actual costs and designated as the “management fee”. The Water and Wastewater enterprise funds shall pay the City for, or reimburse the City for materials and services purchased during the fiscal year when consumed.
2. The procedures used to allocate each fund’s share of the management fee shall be reviewed by the City’s auditor not less frequently than every five years. The results of such a review shall be included as part of the documentation for subsequent rate proceedings. Unless otherwise justified by the auditor’s review, the total amount included in the Water and Wastewater enterprise funds for payment to the City, or other entities, for management fee expenses may each be increased at a rate no greater than the growth rate of the City’s total budget.

RECOVERY OF CAPITAL INVESTMENT

1. Utility physical plant investments in excess of normal and customary repair and replacement will be capitalized and amortized for rate setting over their useful lives, either through depreciation/amortization or sinking fund amortization of borrowings. Normal and customary repair and replacement will be expensed when incurred during the fiscal year. Depreciation and amortization shall conform to standard municipal utility practices.

UNDESIGNATED FUNDS

1. Surplus revenues, also known as Undesignated Funds, will be used in lieu of customer revenues, if possible, when those surplus funds reach a level equal to 100% of the prior year's fund expenses, unless such funds are to be held for pay-as-you-go capital expenses.
2. Surplus revenues shall be invested through the City and the interest earned shall be credited to the respective Water and Wastewater funds. Surplus revenues shall not be transferred from their respective Water and Wastewater accounts to be used for non-utility purposes.

Council Adopted Financial Policies

To establish and document a policy framework for fiscal decision-making and to strengthen the financial management of the City, in April 2000, the City Council initially enacted a comprehensive set of Financial Policies, as detailed below. The goal of these policies is to ensure that financial resources are well managed and available to meet the present and future needs of the citizens of the City of Fairfax. Revisions to the financial policies were incorporated per recommendations by the Budget Committee and approved by the City Council in November of 2008.

Budgeting Policies:

1. The City's annual operating budget, capital budget and Capital Improvement Program (CIP) shall be coordinated with, and shall be in concert with, the City's Comprehensive Plan.
2. The City shall adhere to the following guidelines in preparing, implementing and executing the annual budget:
 - a. Mayor and City Council shall develop general budget guidelines and provide them to the City Manager by November 15.
 - b. The Capital Improvement Program shall be considered by the City Council prior to its consideration of the annual budget.
 - c. Where appropriate, revenues related to expenditures shall be reflected in the budget documents.
 - d. The Mayor and City Council shall meet with selected boards and commissions in work sessions as part of the budget deliberations to review budget items concerning areas of interest to the boards and commissions.
 - e. The Mayor and City Council shall conduct a quarterly review of the implementation of the budget.
3. Budgeted current revenues must be greater than budgeted current expenditures.
 - a. Significant one-time revenues shall be used only for one-time expenditures.
 - b. Revenues must be increased or expenditures decreased, in the same fiscal year, if deficits appear.

4. The target for the General Fund transfer to the Capital Fund shall be at least 5 percent of General Fund expenditures to help ensure adequate reinvestment in capital plant and equipment. This transfer percentage incorporates the City's use of annual debt service payments toward capital projects.
5. The City shall set utility rates for the Water and Wastewater funds that will ensure industry-standard operation of the enterprise functions.

Reserve Policies:

1. The target for the General Fund balance shall be, at minimum, approximately 10 percent of General Fund expenditures.

Debt Policies:

1. Debt Service Targets
 - a. Annual debt service expenditures shall be less than 9 percent of annual expenditures.
 - b. Outstanding Debt shall be less than 3 percent of assessed valuation.
2. The term of any bond issue shall not exceed the useful life of the capital project/facility or equipment for which the borrowing is intended.

Revenue/Cash Management Policies:

1. The City shall develop an aggressive economic development effort in order to lessen the impact of any future real estate rate increases.
2. The City shall maintain a diversified revenue base in order to shelter City finances from short-term fluctuations in any single revenue stream.
3. Annual City revenues shall be projected by an objective and thorough analytical process.
4. The City shall deposit all funds within 24 hours of receipt.
5. Investment of City funds shall emphasize the preservation of principal with safety, with liquidity and yield being the primary factors considered.

Accounting/Auditing and Financial Reporting Policies:

1. The City shall take necessary action to ensure receipt of the Government Finance Officers Association annual accreditation for the budget and for the comprehensive annual financial report (audit).
2. An independent audit shall be performed annually and a management letter shall be received by City Council. City administration shall prepare a response to the management letter on a timely basis to resolve any issues contained in the letter.

Council Adopted Budget Guidelines

Revisions to the Budget Guidelines were approved by the City Council in December of 2012.

- Continually review City government programs and operations to achieve the most efficient and effective delivery of community services possible.
- Projected revenues must equal or exceed proposed expenditures. Significant one-time revenues shall be used only for one-time expenditures.
- Maintain a General Fund balance equal to approximately 10 percent of the general fund expenditures in conformance with the City Council financial policy.
- Any General Fund surplus generated in FY 2013 shall be used to accelerate repayment to the General Fund of up to \$1,000,000, to conform to City Council's financial policy of maintaining a fund balance of approximately 10 percent of General Fund expenditures.
- Budget repayment to the General Fund of up to \$500,000 in FY 2014 to conform to City Council's financial policy of maintaining a fund balance of approximately 10 percent of General Fund expenditures.
- Establish and initiate funding for a school tuition reserve to absorb unforeseen deficits in future school tuition budgets
- Increase the General Fund CIP transfer to provide the minimum funding required for repairs and maintenance to adequately protect the City's investment in infrastructure. Continue to fund major capital improvements and, equipment and vehicle requests based on Council priorities and established policy.
- Consider a fair and affordable market adjustment and performance based increase for employees to retain parity with other local governments.
- Follow the City's rating agency's and financial advisor's directives, in order to maintain the highest possible credit rating.
- Adhere to the Council's adopted financial policies.

Community Profile

City Government

Date of Incorporation	1799
Date of City Charter	1961
Form of Government	Council—Manager
City Employees	429.10

Physiographic

Land Area - Square Miles	6.28
Acres of Public Parks & Open Space	188
Paved – Lane Miles	169
Sidewalks	87

Utilities

Telephone	Verizon
Electric	Dominion Virginia Power
Gas	Washington Gas
Water	City of Fairfax
Wastewater	City of Fairfax
Cable	COX Cable / Verizon

Economic Indicators

Largest Private Employers (June 2011)

Fairfax Nursing Center
Inova Fairfax Hospital
Zeta Associates
Fairfax Volkswagen, Honda
Ted Britt Ford Sales
Lockheed Martin, Integrated Microcomputer Systems
The Home Depot

Largest Public Employers (June 2011)

City of Fairfax
Dominion Virginia Power
U.S. General Services Administration
U.S. Department of Homeland Security
United States Postal Service

Taxes

Real Estate Tax Rate

FY 2014: \$1.06 per \$100 assessed value
FY 2013: \$1.01 per \$100 assessed value

Personal Property Tax Rate

FY 2014: \$4.13 per \$100 assessed value
No change from FY 2013

City Finances – Bond Ratings

Moody's Investors Service, Inc	Aaa
Standard & Poor's	AAA

Population

2010 U.S. Census	22,671
2000 U.S. Census	21,498
1990 U.S. Census	19,622

Households

2010 U.S. Census	8,347
2000 U.S. Census	8,035
1990 U.S. Census	7,362

Average Household Size

2010 U.S. Census	2.64 persons
2000 U.S. Census	2.61 persons

Age (2010 Census)

(1-19)	22.4%
(20-34)	22.5%
(35-64)	41.5%
(65 +)	13.7%

Race and Ethnicity (2010 Census)

White	61.4%
Hispanic	15.8%
Asian	15.1%
Black	4.6%
Other/Mixed	3.2%

Note: White, Asian and Black categories include non-Hispanics only.

Source: U.S. Census Bureau

Unemployment

	Dec. 2010	June 2012
City of Fairfax	5.2%	5.7%
Virginia	6.4%	6.0%
United States	9.1%	8.4%

Hotel Industry

	Dec. 2010	Dec. 2011
Number of Hotel Rooms	561	716
Occupancy Rate	70%	72%
Average Daily Rate	\$92	\$95

Vacancy Rates

	FY 2011	FY 2012
Office Space	13.0 %	10.4 %
Retail Space	5.5 %	2.8 %
Industrial	1.0 %	<1.0 %

City of Fairfax Employment by Industry

The largest major industry sector was Professional, Scientific & Technical Service with 22.1% of the employment followed by Retail Trade with 16.6%, Health Care and Social Assistance with 12.9% and Accommodation and Food Services with 9.6%. The following is a listing of major industries and the number employed in those sectors for 2011 in the City of Fairfax.

Industry Group	Employees
Professional, Scientific & Technical Services	4,274
Retail Trade	3,237
Health Care and Social Assistance	2,684
Accommodation and Food Services	2,042
Public Administration	1,830
Administrative and Waste Services	1,279
Other Services (Except Public Administration)	910
Finance and Insurance	848
Construction	666
Information	303
Education Services	355
Arts, Entertainment and Recreation	378
Transportation and Warehousing	253
Management of Companies and Enterprises	146
Real Estate, Rental and Leasing	182
Wholesale Trade	141
Manufacturing	93

*Source: Virginia Employment Commission,
Quarterly Census of Employment and Wages, Third Quarter 2012*

Economic Assumptions and Budgetary Influences

The underlying economic assumptions in this budget are:

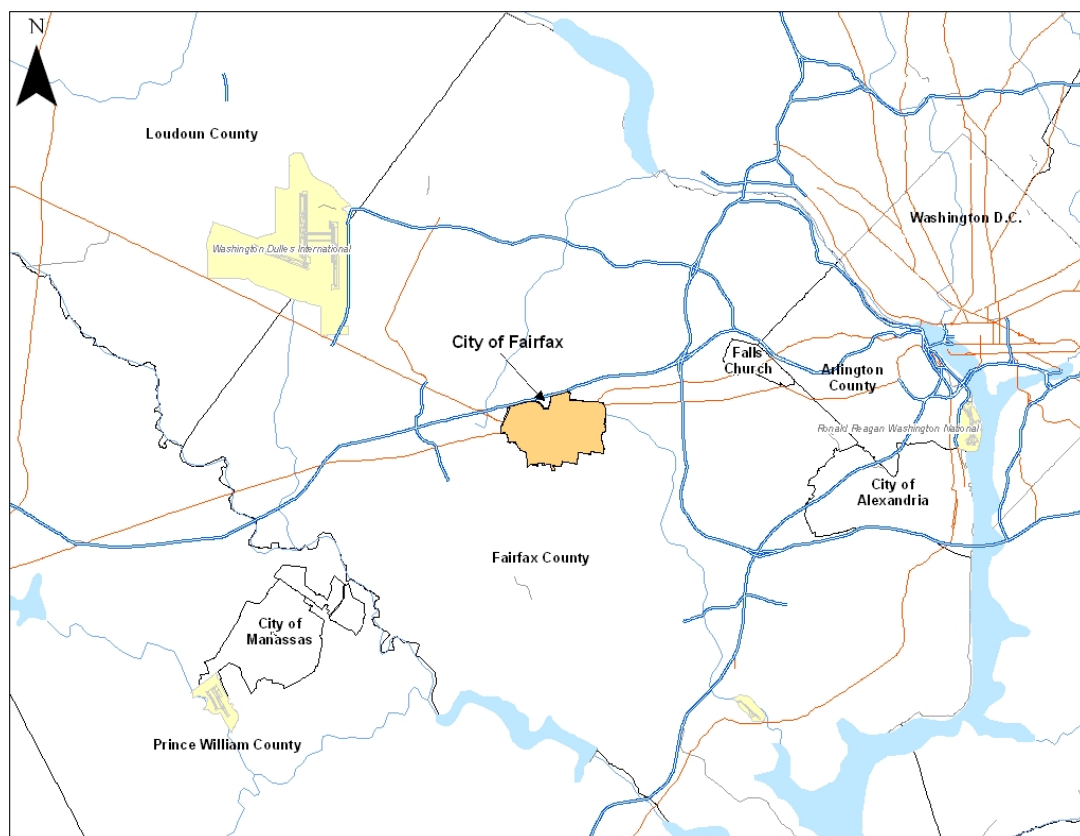
- Increase in residential assessments of 2.0 percent; commercial assessments also increasing 0.3 percent (excludes new construction)
- A stabilizing regional economy as reflected in higher Business Licenses (BPOL)
- State funding projected to decrease 3.3 percent
- Non-education Fairfax County contracts to increase 3.4 percent
- School tuition contract with Fairfax County Public Schools to increase 1.0 percent
- Addition of one sanitation driver
- No boundary changes anticipated

Several organization-wide factors have influenced the budgetary decisions in this budget, including:

- The desire to maintain a comparatively low overall tax burden on City taxpayers during persistently difficult economic conditions while meeting the budgetary demands of rising costs
- Continue the high level of services and amenities offered to citizens, including parks, roads, trash and leaf collection services, City Hall services, social welfare programs, etc.
- Address infrastructure needs and concerns that have arisen as a result of past budgetary deferrals due to economic pressures (i.e. roads, storm drainage infrastructure, and facility maintenance)
- Consideration of the short and long-term impact of changing demographics in the City, especially the fluctuating number of school-age children living in the City, influencing the cost of schools as well as the demand for recreation and social programs

Economic Condition and Outlook

An independent jurisdiction of 6.34 square miles, 15 miles west of Washington, D.C., the City of Fairfax lies in the heart of the Northern Virginia area. Bounded by interstate 66 on the north and less than five miles west of the Capital Beltway, the City of Fairfax is at the crossroads of Northern Virginia's major north/south and east/west highways. Fairfax's neighbors include the Vienna/Fairfax GMU station of the Metro regional rail system, and, at the southern boundary of the City, George Mason University (GMU). The City is within 30 minutes of both Dulles International Airport and Regan Washington National Airport.



The City provides the high level of services that Northern Virginians expect. With a population of approximately 23,000, the City offers good government, low taxes and a strong feeling of community pride. The residential tax burden is among the lowest in Northern Virginia. Businesses also enjoy the City's low tax rates with business license rates that compare favorably with those of other Northern Virginia jurisdictions. Forbes called the City of Fairfax "a great place for entrepreneurs" and stated the City's sole-proprietors-per-capita ranks in the top 1% nationwide. The Atlantic identified the City as one of the nation's top jurisdictions for its high concentration of "creative class" workers.

The City is one of the few places in Northern Virginia where a small-town sensibility still exists. In an effort to nurture this environment, plans are underway to make the pedestrian environment even more hospitable with wider sidewalks, landscaping, boulevard-style developments, bike trails and other improvements. Add the proximity of George Mason University, many historical buildings and an active artistic community, and the sum is a locale with a unique sense of community. In 2009, the City of Fairfax was ranked third by Forbes magazine in their article titled "America's Top 25 Towns to Live Well." The City is proud of this accolade based on the quality of services provided to the citizens, and the significant investments made to its schools, parks, public buildings, and land purchases as part of open space preservation.

Recovery from the recession and job creation have both remained sluggish, and uncertainty about the "fiscal cliff" and possible Federal spending cuts have added to businesses' worries. With 77% of residents working outside the City, reduction in federal procurement will likely have direct and indirect impacts locally. However, the slowly improving economy has been supported by consumer spending and business investment. Over 300,000 square feet in existing retail centers are currently undergoing renovations or have planned for future improvements or redevelopment. An additional 160,000 square feet of office space is undergoing significant exterior and interior improvements. Multiple high-end residential projects are under construction or already on the market. Additionally, the City's unemployment has declined from 7.3% in September 2011 to 5.7% in June 2012, which is below the State's unemployment rate of 6.0% and the national unemployment rate of 8.4%

The City remains dedicated to the redevelopment of the Route 50/29 Corridor. The Route 50/29 Corridor is the City's economic engine, providing nearly 40% of all tax revenues generated from the community. Known as Fairfax Boulevard, the City, in partnership with the Economic Development Authority and the Planning Commission, is aggressively pursuing multiple redevelopment opportunities. The City also remains committed to the Fairfax Boulevard Master Plan, which identifies three main commercial centers prime for redevelopment. These locations are Fairfax Circle, Kamp Washington and

Lee highway (Route 29) to include Jermantown Road, at the western portion of the corridor. The potential impact of multifamily and missed-use developments are currently being considered at multiple locations.

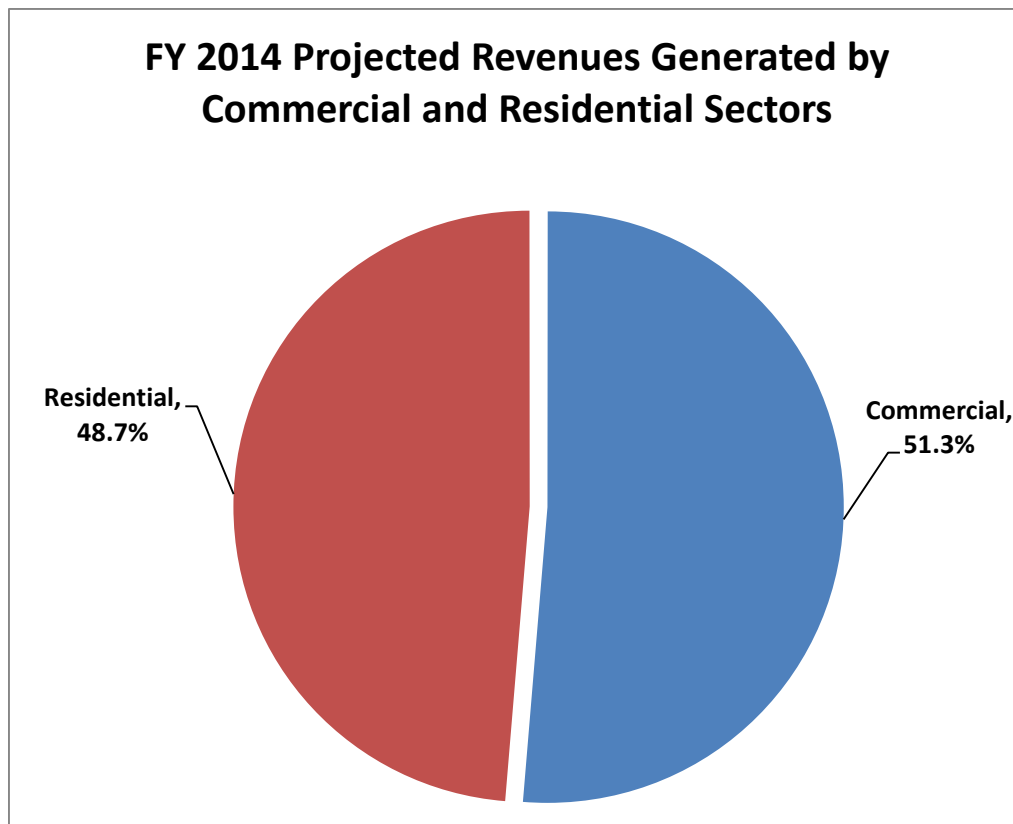
With the Old Town Plaza redevelopment project in downtown Fairfax and the construction of a high-end townhome community complete, the City is now focused on redesigning “Old Town Square.” Various concepts are under consideration for this section of the block next to Old Town Hall, with the vision being a development which showcases a blend of civic, commercial and historic uses. The redevelopment has proved a catalyst for the potential revitalization of other properties in Old Town Fairfax. The undergrounding of utility wires in the Old Town area is now complete. This project made the City not only more visually appealing, but safer.

The area continues to use civic engagement, arts resources and leveraged partnerships, such as George Mason University, to advance the commercial viability and vitality of Old Town. Planning for other underutilized properties in the downtown continues to evolve; understanding that, enriched by the presence of students, artists, arts and historic organizations, the downtown attracts a greater volume of visitors and residents and, as the economy strengthens, will continue to add new commercial and business owners into the community.

Local Economy

The City provides its citizens with high level services and good government at a reasonable cost. The overall residential and commercial tax burden is among the lowest in Northern Virginia.

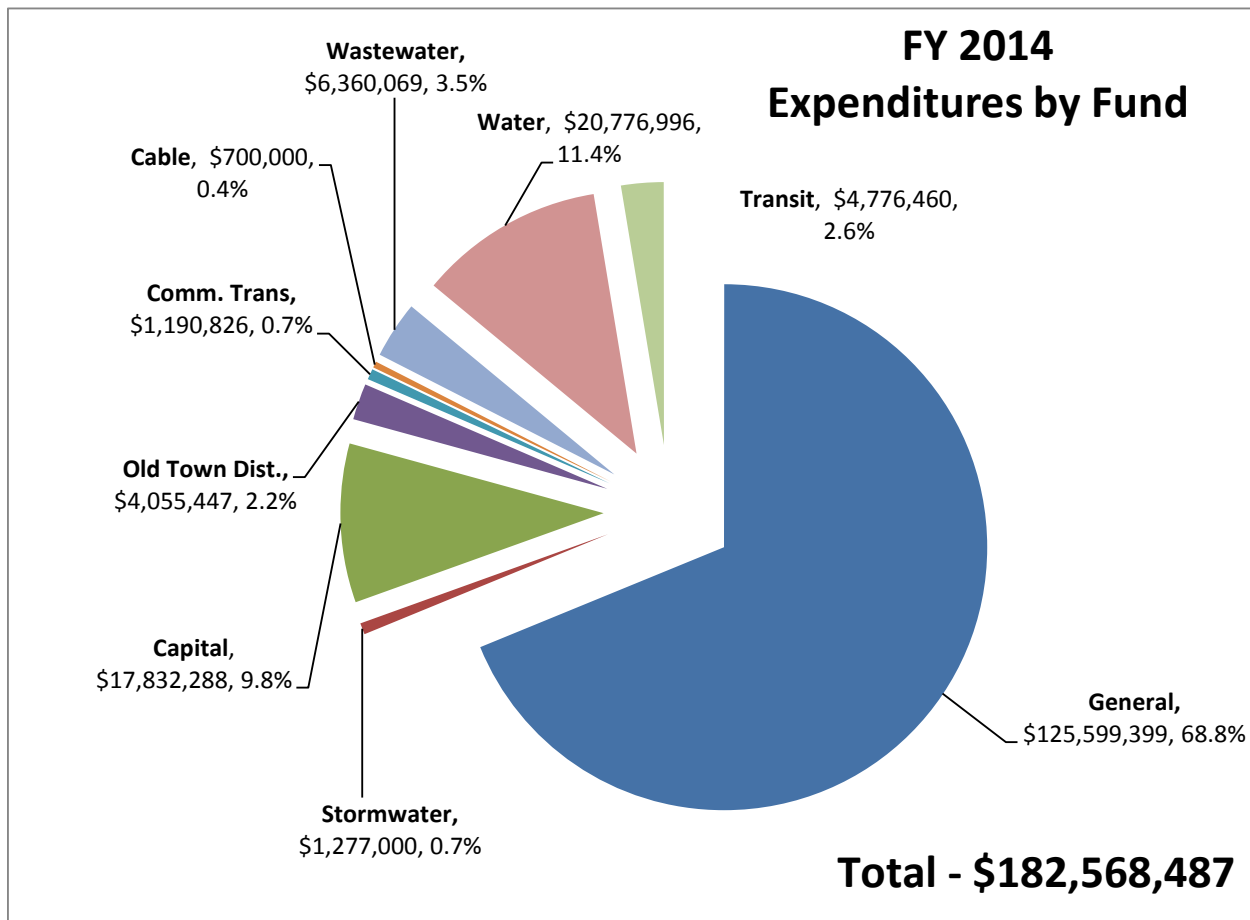
The City’s economy consists of two primary markets: the residentially based market and the non-local market or export base (spending dollars in the City which are earned elsewhere). The residentially based market is driven by the spending of City residents and therefore is a function of the local businesses to capture this local spending. The non-local market includes the hospitality sector, federal contractors and other professional services, and retail activities catering to outside markets. Also of note: George Mason University’s contiguous location affords the City economic opportunities where non-local events may spill over to the benefit of the City’s economy as well.



The City's economy is well prepared to serve City residents as well as residents of the surrounding trade area. There are over 4 million square feet of office space in the City, with a vacancy rate of 10.4 percent, and 3.3 million square feet of retail/service space, with a vacancy rate of 2.8 percent. The City enjoys a lower commercial vacancy rate than the surrounding county and greater Washington, D.C. region. Because of its constrained geographic size and residential character, the City's commercial market remains a niche market reflecting buildings with smaller footprints and heights and lower rental costs. These differences are promoted as a competitive advantage when recruiting for businesses to fill commercial space.

Overview – All Funds

Expenditures for all funds total \$182,568,487. Less fund transfers to the Capital Budget (\$7,241,003), net expenditures total **\$175,327,484**. This is an increase of 8.3 percent over the prior year, and is due largely to increased general fund and capital expenditures. Further details follow in the accompanying sections of the budget book.



Note: Percents may not total due to rounding; sums may differ immaterially due to rounding

Cash Management / Fund Balance

Financial policies recommended by the City’s financial advisors, the City’s auditors, and adopted by the City Council, require a fund balance equal to a minimum of approximately 10 percent of General Fund expenditures. More than being key to maintaining the City’s bond rating, an adequate fund balance allows the City to cope with revenue shortfalls, to pay for unbudgeted expenditures or unanticipated needs, to pay for other one-time large expenditures, and provide for adequate cash flows to absorb fluctuating expenditures and revenues during the fiscal year. For FY 2013, the City Council approved a budget that drew the fund balance below 10% temporarily as the result of an adverse judgment against the City regarding a large tax bill adjustment. The fund was reduced by \$1,000,000 in FY2013 with reimbursement scheduled for FY2014 and FY2015. The adopted FY2014 budget results in a 9.2% fund balance, \$1,039,077 below the City’s policy of approximately 10% of General Fund Expenditures. A \$500,000 reimbursement is adopted in the FY 2014 budget.

The following chart provides a history of the City’s General Fund Balance:

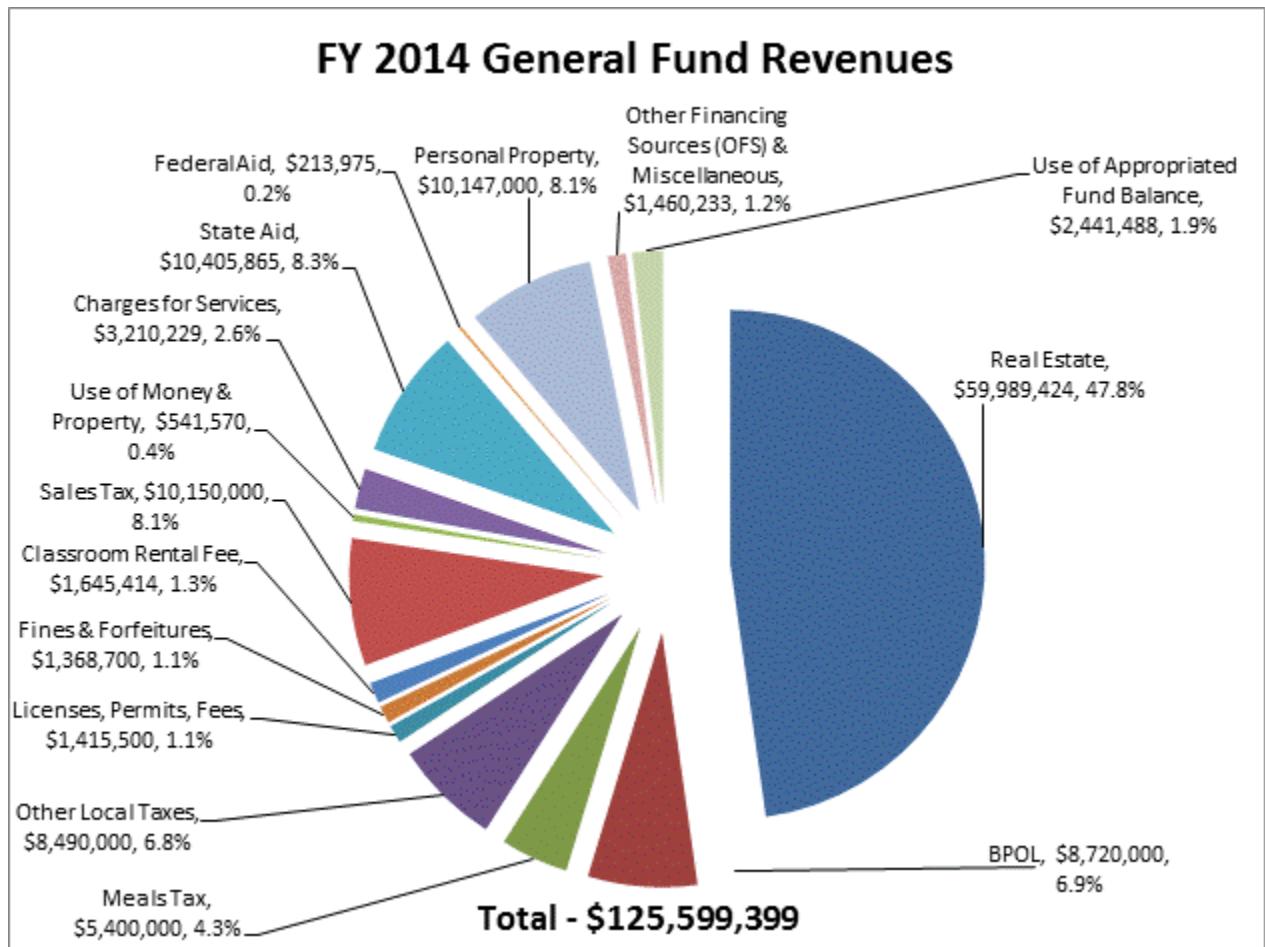
General Fund - Fund Balance		
Fiscal Year	Amount	% of Expenditures
2014*	\$11,520,862	9.2%
2013*	13,962,350	11.7%
2012	13,205,665	11.4%
2011	15,171,679	13.8%
2010	15,569,907	14.1%
2009	14,420,568	13.1%
2008	15,834,008	14.8%
2007	14,612,497	14.6%
2006	14,278,483	14.6%
2005	12,534,246	11.3%
2004	10,975,387	13.4%
2003	10,456,564	13.9%

* Estimate

General Fund Revenues

Overview

General fund revenues equate to \$125,599,399 for FY 2014, which represents an increase of 4.1% (\$5,000,006) over FY 2013. The following chart provides a summary overview of revenues by category for FY 2014.



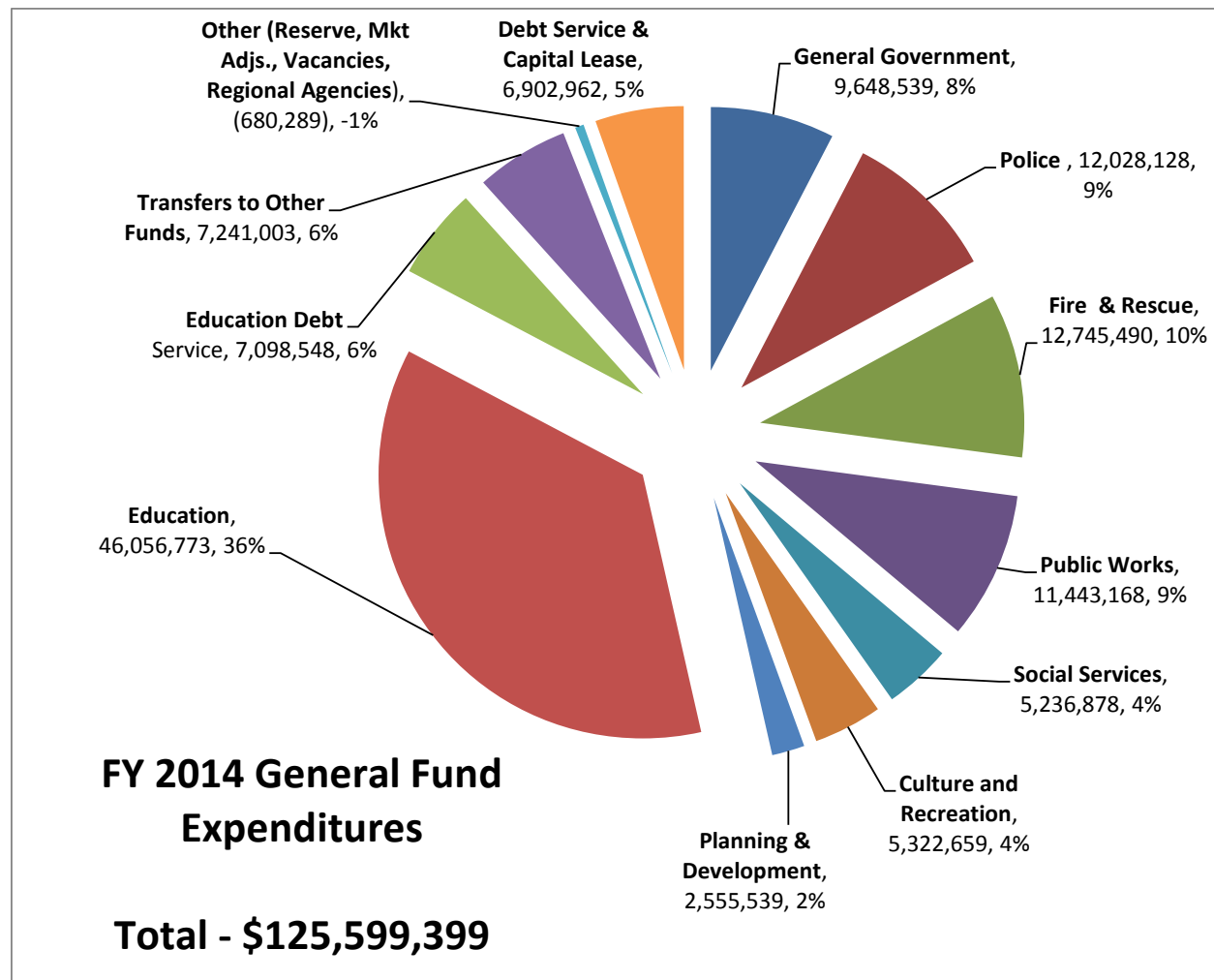
Note: Percents may not total due to rounding; sums may differ immaterially due to rounding

The Use of Appropriated Fund Balance in the amount of \$2,441,488 is from the FY 2013 estimated surplus, which is generated largely by the real estate tax increase. The estimated ending Fund Balance in FY 2014 is equal to 9.2 percent (\$11.5m) of General Fund expenditures.

General Fund Expenditures

Overview- General Fund

The City's General Fund expenditures are budgeted at \$125,599,399 for FY 2014. The largest spending category remains Education, followed by the Fire Department, Police Department, and Public Works. The "Transfers to Other Funds" category notes the General Fund transfers to the Capital Budget, Old Town Fund, Stormwater Fund, and Commercial Real Estate Transportation Tax Fund.



Note: Percents may not total due to rounding; sums may differ immaterially due to rounding

General Fund Revenue and Expenditure Changes - FY 2013 to FY 2014

The following chart highlights the major changes in expenses from last year's budget:

FY 2014 General Fund Expenditure Changes	
Increase / (Decrease) in Expenditures	\$ Change
General Fund Transfer to Capital Budget	2,053,948
Retirement Plan Costs - Public Safety	1,135,164
Retirement Plan Costs - General Employees	635,584
General Fund Transfer - Stormwater	530,957
School Tuition Contract	454,075
Salaries - General & Public Safety	380,624
Zoning Ordinance Revision	185,000
Budget Cuts / Operating Cost Reductions	150,000
Fuel and Utilities Expenses	149,842
Overtime - Public Safety	125,544
Contract Services	80,462
County Contracts - Non Education	67,801
Miscellaneous Changes	(172,008)
General Fund Transfer - CUE Bus	(322,158)
Debt Service	(454,786)
Total Increase / (Decrease) in Expenditures	5,000,046

The following chart highlights the major changes in revenues from last year's budget:

FY 2014 General Fund Revenue Changes	
Increase / (Decrease) in Revenues	\$ Change
Real Estate Taxes (increase in tax rate)	2,290,989
Real Estate Taxes (increase in assessments)	1,664,484
Use of Surplus/Undesignated Fund Balance	756,685
Stormwater Tax	530,957
Eleven Oaks Proceeds	450,000
Business Licenses (BPOL)	289,663
Fines & Forfeitures	218,000
Miscellaneous Changes	173,084
Charges for Services	132,412
Permits & Fees	113,800
Personal Property Taxes	(314,414)
State Aid	(352,072)
Sales Tax	(453,542)
Repayment to General Fund	(500,000)
Total Increase / (Decrease) in Revenues	5,000,046

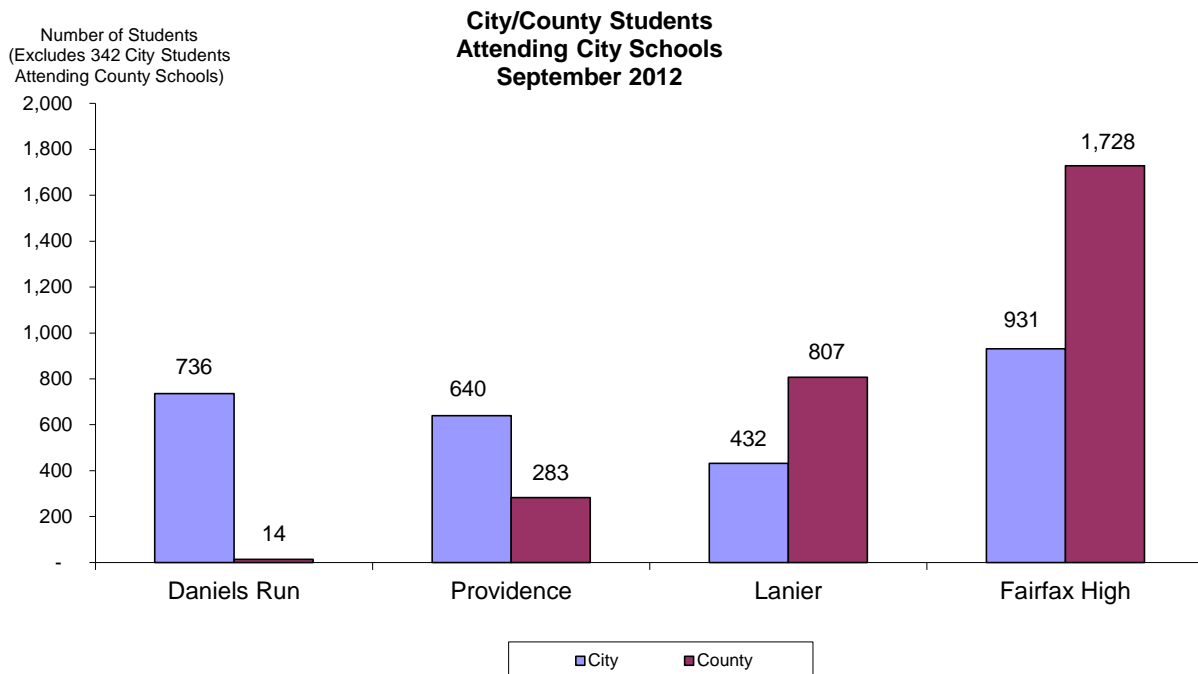
Education

The total request for the schools is \$53.2 million, a decrease of 0.2% (\$0.1 million). Administrative costs account for \$0.9 million, and combined debt/lease payments equate to \$7.1 million. The largest portion of this budget is the school tuition contract with Fairfax County Public Schools, budgeted at \$45.2 million, an increase of 1.0% (\$0.45 million) over FY 2013 budget. The following chart highlights the historical costs associated with the school tuition contract.

Fiscal Year	Final Tuition Bill (excludes Classroom Rental Fee)	ADM
2014*	\$45,175,997*	3,107*
2013*	44,721,922*	3,107*
2012	40,392,677	3,081
2011	37,927,714	2,976
2010	37,380,696	2,905
2009	37,625,873	2,764
2008	37,806,032	2,771
2007	34,188,018	2,766
2006	32,785,342	2,745
2005	30,679,214	2,784
2004	27,291,210	2,767
2003	26,534,379	2,751

* These figures are reconciled to actual amounts after the close of the respective fiscal year and may be adjusted

City students continue to maintain an overwhelming majority of the total population at both Daniels Run and Providence Elementary Schools at 98% and 69%, respectively. On the contrary, Lanier Middle School and Fairfax High School statistics note that City students represent 35% of each those schools' attendance.



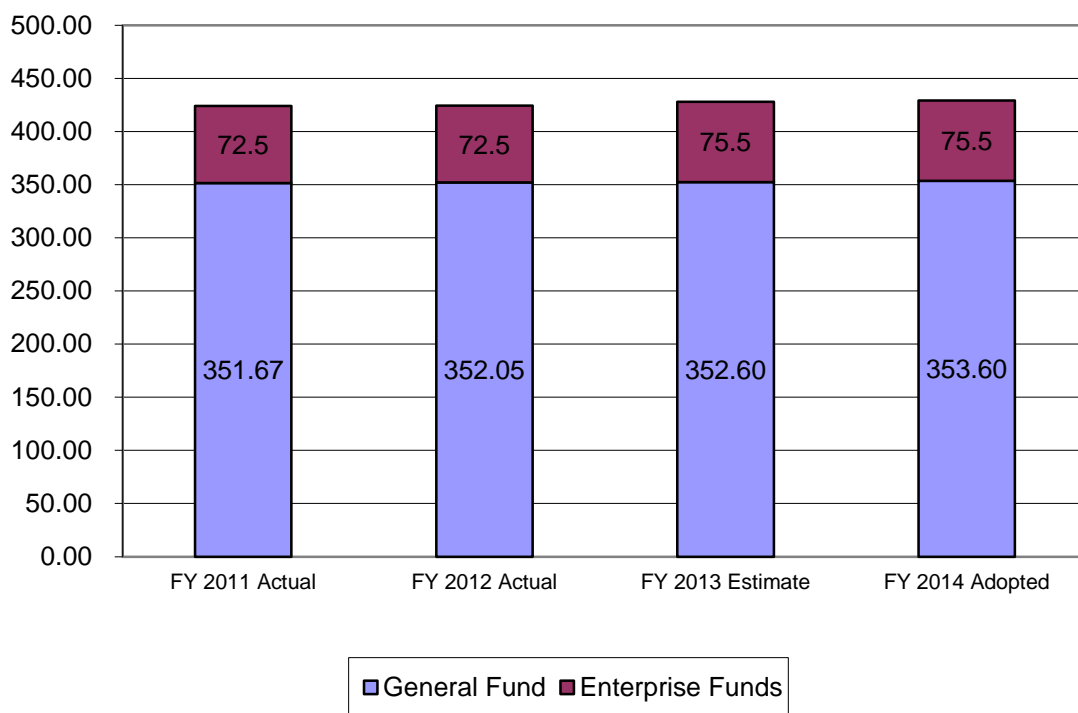
FY 2014 Adopted Budget – City of Fairfax, Virginia

Employees, Salaries and Fringe Benefits

The FY2014 adopted budget provides for a 3.5% merit (step) increase for eligible employees, but did not provide for market adjustments (COLA) due to financial constraints. Employee benefits remain unchanged; however, FY2014 retirement costs are projected to increase (\$1.7 million) due to significant volatilities experienced by the investment markets in the past few years.

The addition of one sanitation driver is included in the adopted FY2014 budget to assist with an increased work load resulting from annual residential development in the City.

Full Time Equivalents (FTE's)



Contract Services

Expenses for county and regional service contracts make up 42.2 percent of the City's General Fund expenditures. The City contracts with Fairfax County for many services, the largest of which is the City's School Tuition Contract.

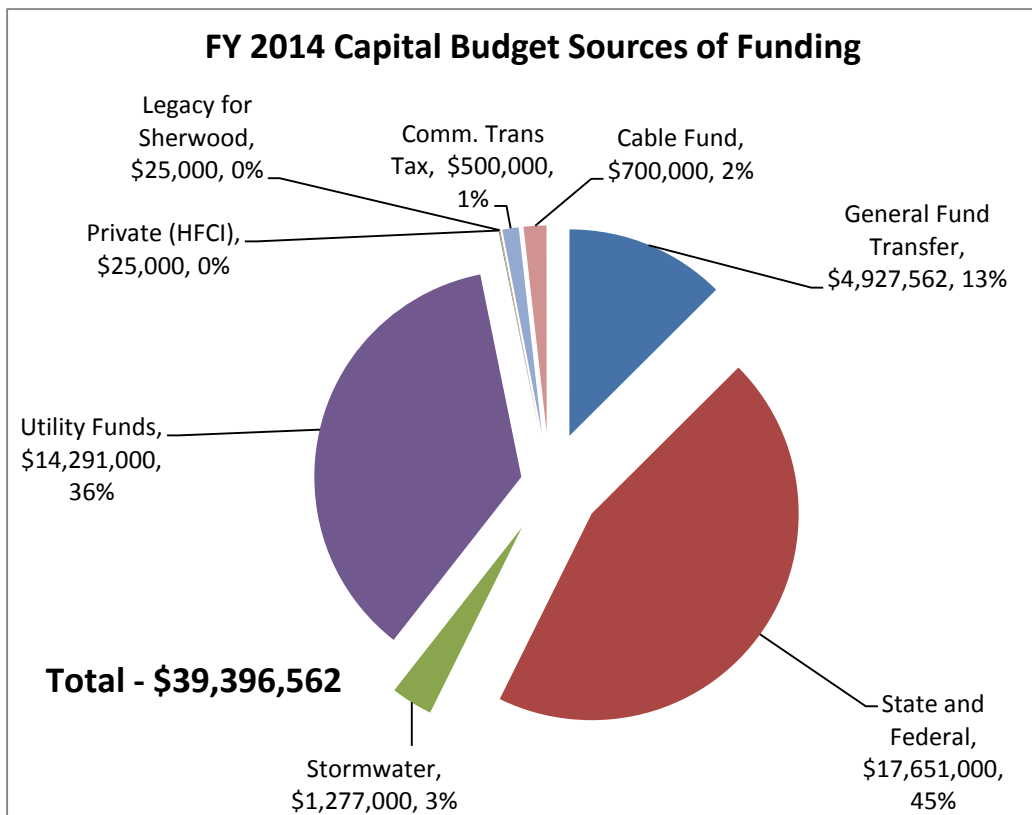
City-County and Regional Service Contracts		
	FY 2013 Adopted	FY 2014 Adopted
City-County Contracts:		
School Tuition Contract	\$44,721,922	\$45,175,997
Library Services	722,611	792,033
Joint Court Service	274,285	279,763
Juvenile and Domestic Court	436,862	451,204
Commonwealth Attorney	72,352	78,071
Jail & Custody Service	1,229,383	1,301,289
Fire & Rescue – Operations	260,214	132,713
Refuse Disposal	450,000	450,000
Extension - County Agent	43,564	43,700
Social Services	1,651,206	1,624,251
Health Department	<u>1,030,545</u>	<u>1,123,984</u>
Subtotal City-County Contracts	50,892,944	51,453,005
Regional Agencies:		
Community Services Board	1,336,100	1,336,100
Council of Governments	22,434	22,890
Health Systems Agency	2,350	2,350
Area Agency on Aging	45,852	44,477
Legal Services of NoVa	21,945	21,945
NoVa Community College	2,126	1,878
NoVa Regional Commission	11,994	16,602
NoVa Regional Park Authority	48,160	42,618
NoVa Transportation Comm.	7,684	6,751
Volunteer Center	<u>10,000</u>	<u>6,000</u>
Subtotal Regional Agencies	1,508,645	1,501,611
Total Contract Services	\$52,401,589	\$52,954,616

Capital Fund

The adopted Capital Improvement Program for FY 2014 totals **\$39,396,562**. The chart below summarizes the City's adopted capital improvement plan and compares to the adopted FY 2013 program.

Category	FY 2013 Adopted	FY 2014 Adopted	Change	
			\$	%
Schools	\$83,500	\$395,000	\$311,500	373%
General Government	1,438,114	1,785,611	347,497	24%
Recreation and Community Appearance	115,000	411,951	296,951	258%
Environment	22,201,000	15,643,000	(6,558,000)	-30%
Transportation	4,344,463	21,161,000	16,816,537	387%
Total	\$28,182,077	\$39,396,562	\$11,214,485	40%

In addition to the General Fund, funding for the Capital Fund comes from Utility Funds, Federal and State Funds, the Cable Fund, privately donated funds, and Stormwater and Commercial Transportation Taxes. The following chart illustrates the sources of funding for the Capital Budget in FY 2014; additional information can be found in Section G of the budget book.



Note: Sums may differ immaterially due to rounding

Wastewater Fund

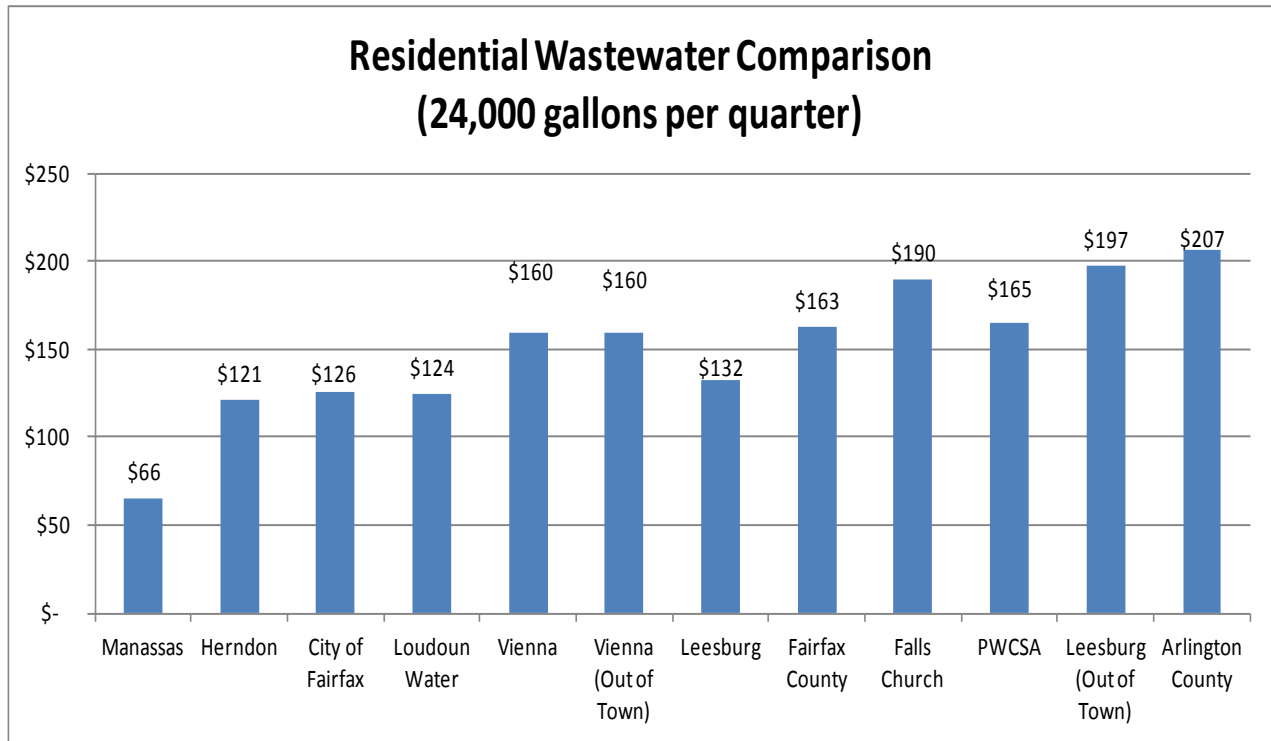
	FY 2012 Actual	FY 2013 Budget	FY 2013 Estimate	FY 2014 Adopted
Revenues	\$6,948,457	\$7,566,196	\$7,191,767	\$7,220,787
Expenditures	\$5,935,884	\$7,083,416	\$6,562,428	\$6,360,069
Rate Increase	12%	12%	12%	10%

For FY 2014, a rate increase of 10 percent is adopted for the Wastewater Fund in order to keep pace with future operating and capital costs as well as replenishing the Wastewater Fund Balance. In FY 2010, the City was officially notified of planned cost increases related to the City's cost sharing agreement with Fairfax County for the treatment of the City's wastewater at the County's Noman M. Cole Water Pollution Control Plant. This plant is subject to continuing stringent environmental standards to protect the Chesapeake Bay and therefore, numerous process upgrades to reduce nitrogen and phosphorus are mandated. Additionally, there are general capital upgrade costs, unrelated to treatment techniques that must be addressed at this facility. The City's portion of these upgrades is projected to be approximately \$26.0 million by 2019. The City has successfully financed the first two phases of these costs and has established a payment schedule acceptable to both jurisdictions. Future rate increases to enable repayment of the debt for the Wastewater treatment plant upgrades and modifications will be significant. Establishment of a future rate increase schedule was prepared to match the financial forecast and ensure rate stabilization.

Apart from the financial requirements of the Wastewater treatment facility, in FY 2009 the City undertook an analysis of the Wastewater collection system. Numerous infrastructure recommendations were made by the City's consulting engineers and financial advisors which resulted in the preparation of a multiyear Capital Improvement Plan. FY 2014 will require \$535,000 for continued wastewater conveyance maintenance to include pipe relining, manhole rehabilitation and an asset management program.

The three-year forecast for Wastewater fee increases is 10 to 12 percent per year. This is substantial and is the result of needed infrastructure improvements; particularly the Noman M. Cole Water Pollution Control Plant. The fund balance is expected to continue to improve over the next several years. Currently the balance is substandard.

The following chart is a comparison of the average quarterly residential cost for wastewater by local jurisdiction.



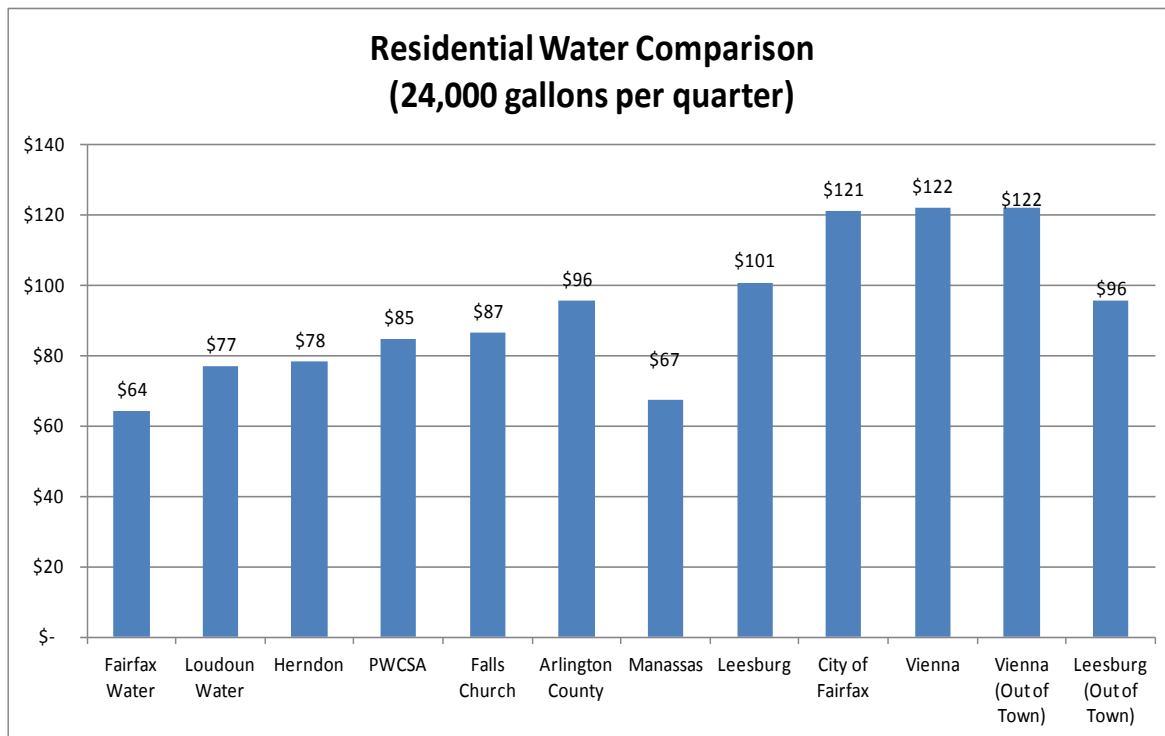
Water Fund

	FY 2012 Actual	FY 2013 Budget	FY 2013 Estimate	FY 2014 Adopted
Revenues	\$7,774,212	\$27,536,479	\$12,135,131	\$20,829,882
Expenditures	\$8,137,193	\$27,488,102	\$11,698,856	\$20,776,996
Rate Increase	7.5%	7.5%	7.5%	0.0%

On April 9, 2013, City Council voted to transition out of the water treatment business and enter into an agreement with Fairfax Water to become their retail customer. Because the agreement is not yet final, the FY 2014 Water budget includes \$11,995,000 for continued project improvements to include improvements to the Goose Creek Raw Water Pumping Station, Chemical Storage Facilities, High Service Pumping Station, cast iron water main replacements, water tank maintenance, continued implementation of automated meter reading, Supervisory Control & Data Acquisition and Geographic Information Systems.

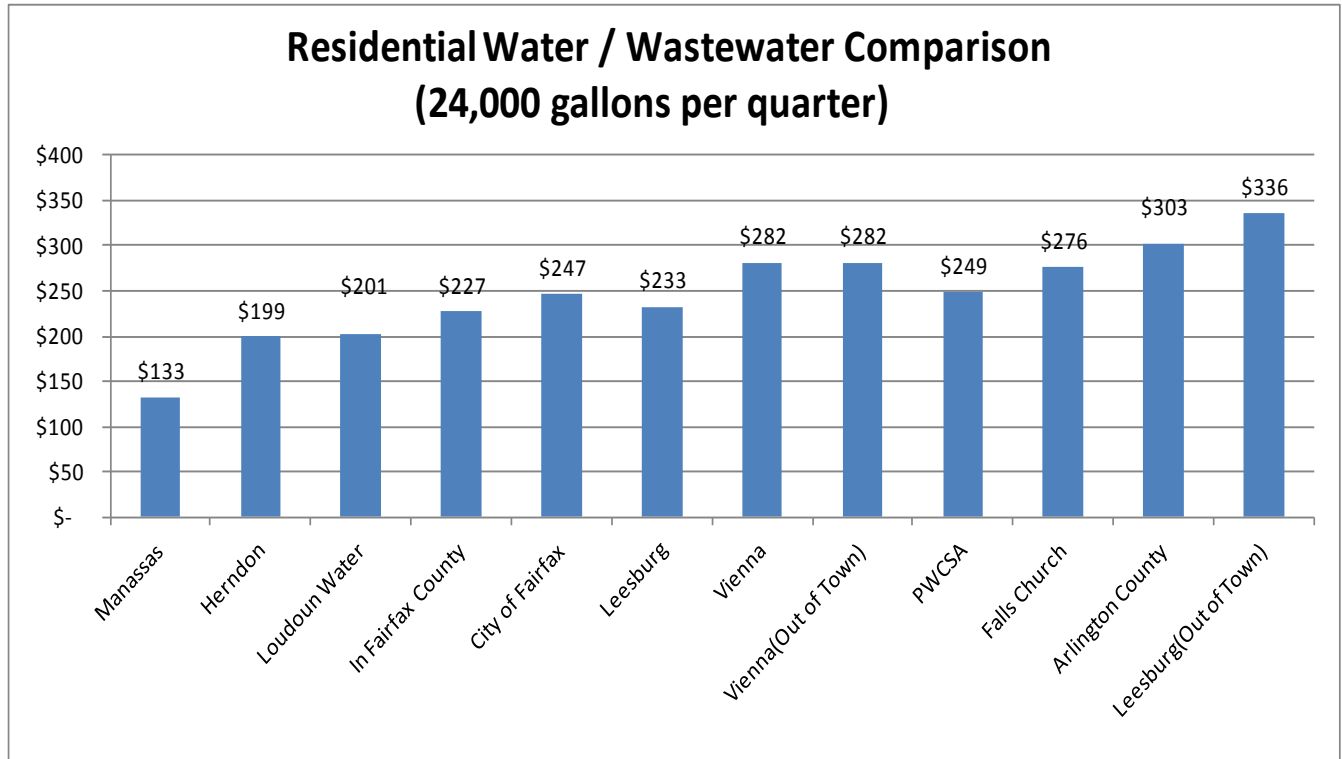
Loudoun Water has been a wholesale customer of the City since 1961. Loudoun Water has advised the City that it will build its own water treatment plant sometime during the next five to seven years. The City is in negotiations to sell its assets in Loudoun County to Loudoun Water.

The following chart is a comparison of the average quarterly residential cost for water by local jurisdiction.



FY 2014 Adopted Budget – City of Fairfax, Virginia

The following chart highlights combined charges for both water and wastewater bills. All jurisdictions in the region have a basic charge for their respective water and wastewater rates with the two exceptions, the City of Fairfax and Arlington County. The chart below combines the previous separate water and wastewater charts.

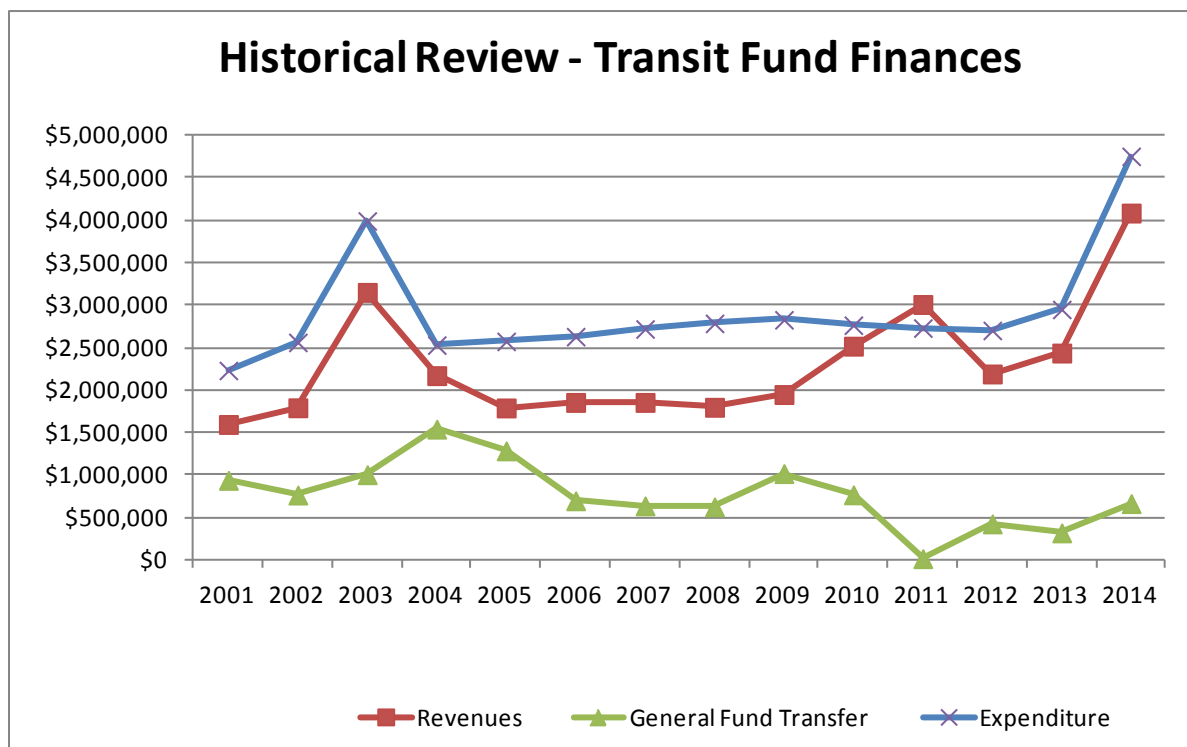


Transit Fund

	FY 2012 Actual	FY 2013 Budget	FY 2013 Estimate	FY 2014 Adopted
Revenues	\$2,620,685	\$2,608,452	\$2,438,364	\$4,085,700
Expenditures	\$2,732,159	\$2,951,173	\$2,777,373	\$4,776,460
General Fund Support	\$428,000	\$322,158	\$322,158	\$0
State Support	\$0	\$0	\$0	\$690,826

The City/University/Energysaver (CUE) bus system provides an alternative transportation mode for City and area residents and George Mason University (GMU) students throughout the City and from GMU and Metro. The City has operated the CUE system since 1985 and provides 12 buses on a fixed route system traveling 441,430 vehicle miles during 30,215 hours of operation each year.

The adopted basic fare (cash) remains unchanged at \$1.80. A discounted fare of \$1.60 is charged to those riders who use a Smartrip Card. GMU currently contributes \$720,000 annually to cover the cost of student and faculty ridership. The chart below summarizes CUE's past financial results.



Acknowledgements

The budget is the product of an intensive effort by staff in all City departments. In particular I want to express my appreciation to David Hodgkins, Assistant City Manager / Director of Finance, and Jennie Tripoli, Assistant Director of Finance, who have principal responsibility for the preparation of this document. Others who contributed significantly to the preparation and printing include Melanie Burrell, Lyn Guzman, and Joanna Ormesher. Additional thanks go to each of the Department Directors, the City School Superintendent and staff, the Constitutional Officers and every employee who participated in finalizing materials for City Council's deliberation.

Budget Information Request

Copies of the FY 2014 Adopted Budget and FY 2014-2018 Capital Improvement Program (CIP) are available as follows:

Office of Finance

City Hall

10455 Armstrong Street, Room 312

Fairfax, VA 22310

Phone: 703-385-3973

E-mail: jennie.tripoli@fairfaxva.gov

City website: <http://www.fairfaxva.gov/budget/budget.asp>

Elected Officials

Mayor

R. Scott Silverthorne

scott.silverthorne@fairfaxva.gov

City Council

Michael J. DeMarco

michael.demarco@fairfaxva.gov

Daniel F. Drummond

dan.drummond@fairfaxva.gov

Jeffrey C. Greenfield

jeff.greenfield@fairfaxva.gov

David L. Meyer

david.meyer@fairfaxva.gov

Eleanor D. Schmidt

eleanor.schmidt@fairfaxva.gov

Steven C. Stombres

steve.stombres@fairfaxva.gov

City Hall

10455 Armstrong Street

Fairfax, VA 22030

703-385-7850 (phone)

703-385-7811 (fax)

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